

REPORT OF THE AUDIT COMMITTEE

November 19, 2008

The Honorable,
The Board of Commissioners of Cook County

ATTENDANCE

Present: Chairman Daley, Vice Chairman Goslin, Commissioners Butler, Quigley, Maldonado and Schneider (6)

Ex-Officio Member: Laura A. Burman – Cook County Auditor (1)

Absent: Commissioner Gorman (1)

Ex-Officio Member: Donna L. Dunnings, Chief Financial Officer, Bureau of Finance (1)

Also Present: Commissioners Peraica and Sims (2); John Morales – Cook County Comptroller; John Cookinham – Chief Financial Officer, Oak Forest Hospital; Kari Scharff – Assistant, Public Administrator's Office; Antonio Hylton – Chief Information Officer, Bureau of Technology; Kelvin Magee – Chief Financial Officer, Cermak Health Services; Pat Hagan – Deloitte & Touche Management, LLP; Tracey Guidry – Deloitte & Touche Management, LLP;

Court Reporter: Anthony W. Lisanti, C.S.R.

Ladies and Gentlemen:

Your Audit Committee of the Board of Commissioners of Cook County met pursuant to notice on Wednesday, November 19, 2008 at the hour of 1:30 P.M. in the Board Room, Room 569, County Building, 118 North Clark Street, Chicago, Illinois.

Chairman Daley entered into the record a letter to Donna Dunnings, Chief Financial Officer, containing questions regarding the annual financial statements. (See attached). Chairman Daley requested leave to allow a presentation from Pat Hagan of Deloitte & Touche.

Pat Hagan presented an overview of Cook County's Comprehensive Annual Financial Report (CAFR), stating that it covers the fiscal year ended November 30, 2007. He complimented the auditing team for completing the audit two months faster than last year, with the cooperation of Ms. Dunnings and Mr. Morales, the Cook County Comptroller.

Your Committee has considered the following items and, upon adoption of this report, the recommendations are as follows:

296225 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2007. Transmitting a Communication, dated September 15, 2008 from Donna L. Dunnings, Chief Financial Officer, Bureau of Finance:

Subject: Comprehensive Annual Financial Report (CAFR)

for the Fiscal Year ended November 30, 2007

submitting a copy of Cook County's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended November 30, 2007, prepared by the Cook County Office of the Comptroller and audited by Deloitte & Touche, LLP. Respectfully request that the report be referred to the Cook County Board's Audit Committee for further consideration.

- * **Referred to the Audit Committee on September 17, 2008.**
- * **Deferred at the Audit Committee Meeting of October 8, 2008.**

Commissioner Peraica asked Mr. Morales for his opinion regarding a dual pension system, i.e., a defined benefit plan for current staff, and a defined contribution plan for new hires.

Mr. Morales replied that was a matter for the Board to consider.

Vice Chairman Goslin, seconded by Commissioner Butler, moved to receive and file Communication Number 296225. The motion carried.

296787 COOK COUNTY SINGLE AUDIT REPORT FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2007. Transmitting a Communication, dated October 14, 2008 from Donna L. Dunnings, Chief Financial Officer, Bureau of Finance:

Subject: Cook County Single Audit Report for the Fiscal Year ended November 30, 2007

submitting herewith is a copy of the Cook County Single Audit Report for the fiscal year ended November 30, 2007, applicable to our major federal grant programs, prepared by the Cook County Office of the Comptroller and audited by Washington, Pittman & McKeever, LLC. I respectfully request that the report be referred to the Audit Committee of the Board of Commissioners for further consideration.

- * **Referred to the Audit Committee on October 15, 2008.**

Vice Chairman Goslin, seconded by Commissioner Butler, moved to receive and file Communication Number 296787. The motion carried.

297164 COOK COUNTY'S BASIC FINANCIAL STATEMENTS FOR SINGLE AUDIT REPORT FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2007. Transmitting a Communication, dated November 4, 2008 from Donna L. Dunnings, Chief Financial Officer, Bureau of Finance:

Subject: Cook County's Basic Financial Statements for Single Audit Report for the fiscal year ended November 30, 2007

submitting herewith a copy of Cook County's Basic Financial Statements, which includes the Independent Auditor's Report for the fiscal year ended November 30, 2007 which was prepared by Deloitte & Touche, LLP. This is part of the Cook County Single Audit Report for the fiscal year ended November 30, 2007

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previously submitted. I respectfully request that the report be referred to the Audit Committee of the Board of Commissioners for further consideration.

*** Referred to the Audit Committee on November 5, 2008.**

Vice Chairman Goslin, seconded by Commissioner Butler, moved to receive and file Communication Number 297164. The motion carried.

297165 COOK COUNTY BUREAU OF HEALTH FACILITIES MANAGEMENT LETTER FOR FISCAL YEAR ENDED NOVEMBER 30, 2007. Transmitting a Communication, dated November 4, 2008 from Donna L. Dunnings, Chief Financial Officer, Bureau of Finance:

Subject: Cook County Bureau of Health Facilities Management Letter for fiscal year ended November 30, 2007

submitting herewith a copy of Cook County Health Facilities Report to Management for fiscal year ended November 30, 2007 which was prepared by Deloitte & Touche, LLP and the responses from Bureau Management relating to the Bureau of Health Annual Fiscal Audit for the fiscal year ended November 30, 2007 previously submitted. I respectfully request that the report be referred to the Audit Committee of the Board of Commissioners for further consideration.

*** Referred to the Audit Committee on November 5, 2008.**

Vice Chairman Goslin, seconded by Commissioner Butler, moved to receive and file Communication Number 297165. The motion carried.

297166 COOK COUNTY'S REPORT TO MANAGEMENT FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2007. Transmitting a Communication, dated November 4, 2008 from Donna L. Dunnings, Chief Financial Officer, Bureau of Finance:

Subject: Cook County's Management Letter for the fiscal year ended November 30, 2007

submitting herewith a copy of Cook County Report to Management for fiscal year ended November 30, 2007 which was prepared by Deloitte & Touche, LLP and the responses from County Management relating to the Comprehensive Annual Financial Report for the fiscal year ended November 30, 2007 previously submitted. I respectfully request that the report be referred to the Audit Committee of the Board of Commissioners for further consideration.

*** Referred to the Audit Committee on November 5, 2008.**

Commissioner Peraica inquired about inadequate staffing in the administrative offices of the Health and Hospitals System.

John Cookinham, Chief Financial Officer, Oak Forest Hospital, stated there is one certified accountant preparing the financial statements and one staff person accumulating financial data at

Oak Forest Hospital. Provident Hospital is staffed at similar levels. The staff meets on a monthly basis with the Comptroller's Office to review financial statements.

Commissioner Peraica inquired on the accounting deficiency in the Public Administrator's Offices.

Kari Scharff, Assistant, Public Administrator's Office, stated that various banking institutions are used at different times, with accounts being opened and closed. The discrepancy resulted from errors in reconciliation.

Chairman Daley inquired about the performance of the Bureau of Technology.

Antonio Hylton, Chief Information Officer, Bureau of Technology, stated that in the 2009 proposed budget, a comprehensive disaster recovery program, and a continuity of government program, are requested.

Commissioner Butler, seconded by Commissioner Schneider, moved to receive and file Communication Number 297166. The motion carried.

Chairman Daley asked the Secretary to the Board to call upon the registered public speaker, in accordance with Cook County Code, Sec. 2-108(dd):

1. George Blakemore - Concerned Citizen

Commissioner Butler, seconded by Commissioner Maldonado, moved to adjourn the meeting. The motion carried and the meeting was adjourned.

**YOUR COMMITTEE RECOMMENDS THE FOLLOWING ACTION
WITH REGARD TO THE MATTERS NAMED HEREIN:**

Communication Number 296225
Communication Number 296787
Communication Number 297164
Communication Number 297165
Communication Number 297166

Received and Filed
Received and Filed
Received and Filed
Received and Filed
Received and Filed

Respectfully submitted,
Audit Committee



John P. Daley, Chairman

Attest:



Matthew B. DeLeon, Secretary

The transcript and audio recording for this meeting is available from the Office of the Secretary to the Board, 118 North Clark Street, Room 567, Chicago, IL 60602.



JOHN P. DALEY
CHAIRMAN
COMMITTEE ON FINANCE

OFFICE OF THE
BOARD OF COMMISSIONERS OF COOK COUNTY
118 NORTH CLARK STREET #567
CHICAGO, ILLINOIS 60602
(312) 603-4400

November 19, 2008

Ms. Donna Dunnings
Chief Financial Officer
118 N. Clark St.
Chicago, IL 60602

Dear Ms. Dunnings:

Please provide a written response for the record of the Audit Committee's November 19 meeting regarding issues raised by the Independent Auditors Report and CAFR, as follows:

1. On page 3 of the CAFR's Management Discussion & Analysis, the net assets of the County decreased \$276 million in Fiscal Year 2007, continuing a downward trend. Please explain the factors that are causing this decrease in net assets.
2. On page 3 of the CAFR's MD&A, a combined fund balance of \$891.8 million was reported, a decrease of 17%. What is this figure projected to be at the end of the current fiscal year?
3. On page 14 of the Letter to Management, a repeat finding regarding the County's net pension obligation is detailed. How does the current ratio of assets to liability of 77.3% compare to other comparable pension funds?
4. On page 8 of the Letter to Management, the JD Edwards fixed asset module is mentioned as a new application, yet the Chief Information Officer is suggesting a transition away from the JD Edwards system in the future. Please explain this contradiction.
5. On page 17 of the Letter to Management, a repeat finding regarding errors on the general ledger is discussed. Please list the steps taken to avoid this finding in future audits.

Thank you for your attention to this inquiry.

Sincerely,

A handwritten signature in cursive script, reading "John P. Daley".

Chairman John P. Daley
Audit Committee

JPD/bh



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THE BOARD OF COMMISSIONERS

TODD H. STROGER

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		ELIZABETH ANN DOODY GORMAN	17th Dist.



COOK COUNTY
BUREAU OF FINANCE

DONNA L. DUNNINGS
CHIEF FINANCIAL OFFICER

County Building
118 North Clark Street, Room 1127
Chicago, Illinois 60602-1423
TEL (312) 603-5287
FAX (312) 603-3681
TDD (312) 603-5255

December 1, 2008

To: Chairman John P. Daley
Audit Committee

From: Donna L. Dunning *DL/DH*
Chief Financial Officer

The following are responses to your letter dated November 19, 2008:

Question #1

On page 3 of the CAFR's Management Discussion & Analysis, the net assets of the County decreased \$276 million in Fiscal Year 2007, continuing a downward trend. Please explain the factors that are causing this decrease in net assets.

The Net Assets figure is comprised of two (2) components:

- **Restricted Net Assets.** These assets are restricted due to external restrictions imposed by legislation and bond covenants. The County's restricted net assets decreased \$6.4 million from \$374.6 million in fiscal year 2006 to \$ 368.2 million in fiscal year 2007. Of the \$368.2 million in restricted assets, \$6.3 million is attributable to external restrictions imposed on Health Facilities and \$361.9 million is restricted due to bond covenants.
- **Unrestricted Net Assets.** Please note that the deficit in unrestricted net assets of \$655.4 million in fiscal year 2007 does not indicate that the County did not have the resources available to pay its bills or other short-term liabilities. The deficit was the result of having long-term commitments that were greater than currently available resources.



The primary factor attributable to the decrease in unrestricted net assets in fiscal year 2007 included the following:

Cook County Health Facilities liabilities continually outpace assets and expenses outpace revenues.

- Program revenue are derived the program itself and reduce the cost of operating the function to the County. Total program revenues for the Health Facilities have continued to decrease year over year.
- The decrease in revenue is primarily attributable to:
 - A shortfall for charges for services
 - A significant decrease in patient fee revenue collected
 - Increases in the self-pay component of the payor mix while the Medicaid payor utilization decreased over the same period.

For Cook County the primary factors attributable to the decrease in unrestricted net assets in fiscal year 2007 included the following:

- Continued significant increases in the *Net Pension Obligation* (NPO) liability. The net pension obligation is the cumulative amount by which the County has not actually contributed the *annual required contribution* (ARC) of the employer portion for the period. The ARC is an amount that is actuarially determined in accordance with requirements established by GASB Statements 43 and 45. If the ARC payments are made on an ongoing basis, the actuarial projections is that sufficient resources would be available to fund both the normal cost for each year and the amortized unfunded liability. While a net pension obligation does not indicate that the plan will run out of funds in the near future, it does indicate that it is likely that the employer will need to increase their contributions to the plan in the future, in order for the pension plan to be able to pay pension benefits and expenses over the long-term. In fiscal year 2007, the NPO liability increased \$158 million (21%) from \$736 million in fiscal year 2006 to \$894 million in fiscal year 2007.
- The County is self-insured for various types of liabilities and utilizes an actuary to calculate a liability and related expenses. The risk management expense and long-term liability has been increasing year over year, especially in fiscal year 2008. In fiscal year 2007, the risk management expense was \$125 million, representing a \$13 million (12%) increase from \$112 million in fiscal year 2006. In fiscal year 2008 the risk management expense, net of actuarial adjustments, is projected to be \$150 million, representing a \$25 million (20%) increase from \$125 million in fiscal year 2007.

Question #2

On page 3 of the CAFR's MD&A, a combined fund balance of \$891.8 million was reported, a decrease of 17%. What is this figure projected to be at the end of the current fiscal year?

An internal review of the various components of the combined fund balance was prepared by the Office of the Comptroller. At this point in time, the ending combined fund balance for fiscal year 2008 is projected to be in the range of \$810-820 million.

Question #3

On page 14 of the Letter to Management, a repeat finding regarding the County's net pension obligation is detailed. How does the current ratio of assets to liability of 77.3% compare to other comparable pension funds?

Illinois Pension Funds Funded Ratio's

	2001	2002	2003	2004	2005	2006	2007
SURS	58.9%	53.9%	66.0%	65.6%	65.4%		
Illinois Teachers	52.0%	49.3%	61.9%	60.8%	62.0%		
Chicago Teachers	99.9%	96.3%	92.0%	85.8%	79.0%	78.0%	80.1%
Chicago Park District	96.7%	94.0%	89.0%	82.6%	80.0%	76.9%	76.0%
Illinois Municipal	106.4%	101.5%	97.6%	94.3%	94.6%	95.3%	96.1%
MWRD	85.9%	77.3%	75.5%	73.6%	70.8%	70.1%	70.0%
Cook County	88.9%	74.7%	67.5%	70.9%	75.8%	75.3%	77.3%
Forest Preserve	98.0%	81.6%	77.8%	76.0%	89.6%	85.4%	86.7%
CTA	66.3%	57.1%	48.5%	39.4%	34.4%	40.8%	37.9%
Chicago Municipal	93.3%	84.5%	79.9%	72.0%	68.5%	67.2%	67.6%
Chicago Laborers	125.3%	111.0%	103.2%	98.5%	93.9%	94.1%	97.2%
Chicago Police	70.5%	64.6%	61.4%	55.9%	50.7%	50.4%	51.5%
Chicago Fire	60.2%	58.0%	47.4%	42.3%	41.8%	40.4%	42.1%

Question #4

On page 8 of the Letter to Management, the JD Edwards fixed asset module is mentioned as a new application, yet the Chief Information Officer is suggesting a transition away from the JD Edwards system in the future. Please explain this contribution.

The current JD Edwards fixed asset module is not a new application. It is a part of the JD Edwards "One World" application. It has served our needs for over a decade. The issue at hand is attributable to the depreciation schedule and applicable formula. This is a known problem. We are now several revisions behind and cannot take advantage of the enhancements to the system. As outlined in my Mainframe Transition Report previously sent to all Commissioners and Staff, our current financial systems are out of date and will soon be unable to accommodate our government operations. We must seek approval of the approximately \$50-75 MM required to completely overhaul our Enterprise Resource Planning and Financial Systems environment. The Bureau of Technology remains consistent in our recommendation that the county should transition out of JD Edwards.

Question #5

On page 17 of the Letter to Management, a repeat finding regarding errors on the general ledger is discussed. Please list the steps taken to avoid this finding in future audits.

The Comptroller's Office is in the process of implementing procedures to minimize the potential for errors to occur.

Specific steps that are being undertaken include:

- The Chief Financial Officer and County Comptroller have given authority to the Director of Financial Reporting to manage the entire fiscal audit process including monitoring the year-end closing activity.
- The Director of Financial Reporting is in the process of formalizing and documenting a plan for year-end closing policies and procedures, assignments, and general ledger entries maintained by the Comptroller's Office.
- The General Ledger Department in the Comptroller's Office will be responsible for closing the Appropriation Ledger for the fiscal year and the Director of Financial Reporting will manage the year-end adjustments to the General Ledger for annual reporting purposes.

If you have any questions please call me at 312-603-5287.



Donna L. Dunnings
Chief Financial Officer